factors including level of regional development, development of infrastructure in the State including Roads & Transport, Credit absorption capacity and initiatives of entrepreneurs etc.

Impact of Foreign Investment on Indigenous Industry

2697. SHRI NANA DESHMUKH : Will the Minister of FINANCE be pleased to state :

(a) whether in World Economic Forum held recently in Davos, he has told that barring core areas such as defence, Government will free foriegn investment from controls and push ahead with economic reforms process ;

(b) whether it is also a fact that foreign investment is proving detrimental to indigenous industry producing day-to-day usable items; and

(c) if so, what steps are being taken by Government to save such indigenous industries and ward off a situation arising alike East India Company?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALA SAHEB VIKHE PATIL) : (a) During the 30th Annual Meeting of the World Economic Forum 2000, Finance Minister reinforced the Government's commitment to the ongoing economic reforms and initiatives. He also pointed out that globalization can lead to destabilization of economy and there was a need to follow the right domestic sector policy, especially in financial sector and manage external debt prudently.

(b) No, Sir.

(c) Does not arise.

Banks and Financial Institutions into Insurance Sector

2698. SHRI AMAR SINGH : Will the Minister of FINANCE be pleased to State :

(a) whether it is a fact that some Banks and Financial Institutions have approached the Insurance Regulatory and Development Authority for its intervention in facilitating their foray into Insurance Sector ;

(b) if so, the details thereof including the names of such banks and Financial Institutions; and

(c) whether RBI has formulated any guidelines for eligibility to enter this Sector and if so, the details thereof ?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALA SAHEB VIKHE PATIL) : (a) and (b) The Insurance Regulatory Authority has informed that no banks and financial institutions have formally approached them so far.

(c) The draft guidelines issued by the Reserve Bank of India is in the enclosed statement.

STATEMENT

Guidelines for Entry of Banks into Insurance

1. Any scheduled commercial bank would be permitted to undertake insurance business as agent of insurance companies on fee basis, without any risk participation. The subsidiaries of banks will also be allowed to undertake distribution of insurance product on agency basis.

2. Banks which satisfy the eligibility criteria given below will be permitted to set up a joint venture company for undertaking insurance business with risk participation, subject to safeguards. The maximum equity contribution such a bank can hold in the joint venture company will normally be 50 per cent of the paid-up capital of the insurance company. On a selective basis, the Reserve Bank of India may permit a higher equity contribution by a promoter bank initially, pending divestment of equity within the prescribed period (see Note 1 below).

The eligibility criteria for joint venture participant will be as under as on March 31, 2000 :

(i) The net worth of the bank should not be less than Rs. 500 crore,

(ii) The CRAR of the bank should not be less than 10 per cent,

(iii) The level of non-performing assets should be reasonable,

(iv) The bank should have net profit for the last three continuous years,

(v) The track record of the performance of the subsidiaries, if any, of the concerned bank should be satisfactory.

3. In cases where a foreign partner contributes 26 per cent of the equity with the approval of Insurance Regulatory and Development authority/Foreign Investment Promotion board, more than one public sector bank or private sector bank may be allowed to participate in the equity of the insurance joint venture. As such participants will assume insurance risk, those only banks which satisfy the criteria given in paragraph 2 above, would be eligible.

A subsidiary of a bank of another bank will not normally be allowed to join the insurance company on risk participation basis. Subsidiaries would include bank subsidiaries undertaking merchant banking, securities, mutual fund, leasing finance, housing finance business, etc.

Banks which are not eligible as joint venture participant, as above, can make investments up to 10% of the networth of the bank or Rs. 50 crore, whichever is lower, in the insurance company for providing infrastructure and services support. Such participation shall be treated as an investment and should be without any contingent liability of the bank.

The eligibility criteria for these banks will be as under :

(i) The CRAR of the bank should not be less than 10%;

(ii) The level of NPA should be reasonable;

(iii) The bank should have net profit for the three continuous years.

6. All banks entering into insurance business will be required to obtain prior approval of the Reserve Bank. The Reserve Bank will give permission to banks on case to case basis keeping in view all relevant factors including the position in regard to the level of non-performing assets of the applicant bank so as to ensure that non-perfoming assets do not pose any future threat to the bank in its present or the proposed line of activity, viz., insurance business. It should be ensured that risk involved in insurance business do not got transferred to the bank and that the banking business does not get contaminated by any risks which may arise from insurance business. There should be 'arms length' relationship between the bank and the insurance outfit.

Notes :—

1. Holding of equity by a promoter bank in an insurance company or participation in any form in insurance business will be subject to compliance with any rules and regulations laid down by the IRDA/Central Government. This will include compliance with Section 6AA of the Insurance Act as amended by the IRDA Act, 1999, for disinvestment of equity in excess of 26 per cent of the paid up capital within a prescribed period of time.

2. In case audited balance sheet for the year ending March 31, 2000 is not available, unaudited balance sheet for the year ending March 31, 2000 may be considered for reckoning the eligibility criteria. For subsequent years, the eligibility criteria would be reckoned with reference to the latest available audited balance sheet for the previous year.

3. Banks which make investments under paragraph 5 of the above Guidelines, and later qualify for risk participation in insurance business (as per paragraph 2 of the Guidelines) will be eligible to apply to the Reserve Bank for permission to undertake insurance business on risk participation basis.

RBI direction to Peerless General Finance and Investment Company Ltd.

2699. SHRI P. PRABHAKAR REDDY : Will the Minister of FINANCE be pleased to State :

(a) whether it is a fact that pursuant to the Supreme Court's judgement in 1996, the Peerless General Finance and Investment Company Ltd. was directed by the Reserve Bank of India to ban the forfeiture clauses in their savings schemes from 1st April, 1987 ;

(b) whether a similar direction was also given with regard to the various schemes which were initiated on and from 1976 and which started maturing on and from 1986 onwards;

(c) if so, details in this regard;

(d) whether these directions were fully implemented by the Company to the satisfaction of the Court; and

(e) if not, the action taken in this regard ?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI BALA SAHEB VIKHE PATIL) : (a) No, Sir. The Reserve Bank of India have reported that the judgement of Supreme Court in 1996 relates to the tenure of the different schemes and processing/servicing charges collected by the Peerless General Finance and Investment Company Ltd. and is not in connection with forfeiture clause incorporated in the deposit scheme floated by Peerless General Finance and Investment Company Ltd. earlier.

(b) to (d) As per the judgement dated 22-1-1987 of the Hon'ble Supreme Court, the Reserve Bank had issued Residuary Non-Banking Companies (Reserve Bank) Direction No. 55 of 1987 effective from 15th May, 1987 prohibiting forfeiture in the deposit schemes of such companies.

The Peerless General Finance and Investment Company Ltd. had, *suo moto,* withdrawn the forfeiture clause in respect of its certificates sold under different schemes with effect from November 3, 1986, i.e. before the notification of RNBC Directions dated May 15, 1987.

(e) Does not arise.